Intermountain Power Agency

Consolidated Financial Statements for the Years Ended June 30, 2005 and 2004 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Intermountain Power Agency:

We have audited the accompanying consolidated balance sheets of Intermountain Power Agency ("IPA") as of June 30, 2005 and 2004, and the related consolidated statements of revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of IPA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IPA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of IPA as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic consolidated financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional information in the supplemental schedule is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of IPA's management. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2005, on our consideration of IPA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 26, 2005

Intermountain Power Agency

Management's Discussion and Analysis

The Intermountain Power Agency (IPA) is a political subdivision of the State of Utah formed by twenty-three Utah municipalities pursuant to the provisions of the Utah Interlocal Co-operation Act. IPA owns, operates and maintains, a two-unit, coal-fired, steam-electric generating plant and switchyard located in Millard County, Utah and transmission systems through portions of Utah, Nevada and California (the Project). IPA has irrevocably sold the entire capacity of the Project pursuant to Power Sales Contracts (the Contracts) to 36 utilities (the Purchasers). The Purchasers are unconditionally obligated to pay all costs of operation and maintenance and debt service, whether or not the Project or any part thereof is operating or operable, or its output is suspended, interrupted, interfered with, reduced, or terminated. IPA's consolidated financial statements are prepared in accordance with accounting principals generally accepted in the United States of America (GAAP) and consist of Management's Discussion and Analysis, consolidated balance sheets, consolidated statements of revenues and expenses, consolidated statements of cash flows and notes thereto. The consolidated balance sheets report IPA's assets and liabilities as of the end of the fiscal year. Investments are stated at fair value. No net assets are reported in the consolidated balance sheets because IPA is completely debt financed and the Contracts contain no provision for profit. The Contracts govern how and when Project costs become billable to the Purchasers. Expenses determined in accordance with GAAP that are not currently billable under the Contracts are deferred as net costs to be recovered from future billings to participants in IPA's balance sheets. The deferred GAAP expenses will be recovered in future periods when they become billable Project costs in future participant billings. Over the life of the Project, aggregate GAAP expenses will equal aggregate billed Project costs. The consolidated statements of revenues and expenses report the results of operations and the consolidated statements of cash flows report the resulting cash flows for the fiscal year. Net costs recovered (net costs to be recovered from billings to participants) reported in the consolidated statements of revenues and expenses reflects the extent to which billable Project costs are greater (less) than GAAP expenses during the fiscal year. The following table summarizes the financial condition and operations of IPA for 2005 and 2004 (in thousands):

Assets	2005	2004
Utility plant, net	$ 1,337,681	$ 1,393,688
Investments	606,638	601,988
Net costs to be recovered from future billings to participants	1,049,839	1,062,996
Other	114,106	133,114
	$ 3,108,264	$ 3,191,786
Liabilities		
Long-term debt	$ 2,525,710	$ 2,597,965
Commercial paper notes	384,000	386,200
Other	198,554	207,621
	$ 3,108,264	$ 3,191,786
Revenues and Expenses		
Operating revenues, net	$ 606,231	$ 567,794
Fuel	(178,487)	(168,633)
Other operating expenses	(201,755)	(196,106)
Net loss on coal sales	(12,309)	(3,031)
Operating income	213,680	200,024
Net interest charges	(203,113)	(213,974)
Nonoperating income	2,590	3,445
Net costs recovered (net costs to be recovered from future billings to participants)	$ 13,157	$ (10,505)

Financial Highlights:

Revenues and Expenses

Operating revenues increased $38 million in 2005 when compared to 2004. The growth in revenue resulted from a corresponding growth in 2005 Project costs billed to the Purchasers that included a $12 million increase for bond, subordinated note and commercial paper notes principal requirements, a $13 million increase for previously deferred GAAP expenses recovered in current billings and a $1 million decrease for capital improvements and required fund deposits.

Fuel expenses increased $10 million from the prior year due to the following factors: a seller's shortage by IPA's largest coal supplier requiring incremental market priced coal; due to only lower quality coal being available on the market, declining fuel quality requiring approximately 3% more coal to achieve the same level of generation and a market price increase in cost of coal. The market price increase affected both the cost of purchasing coal above that supplied under the existing long-term coal contracts, and a full year of the redetermined price from IPA's largest single long-term coal contract as opposed to one-half year of the redetermined price during 2004. The increase in other operating expenses of $6 million is principally due to increases in the obligations for retirement benefits.

The increase in net loss on coal sales of $9 million from 2004 resulted from more difficult operating conditions in certain operating coal mines in which IPA has an ownership interest. The resulting higher operating costs at times exceeded the sales price in certain coal supply agreements that were executed when there was a buyers' market for coal.

The decrease in net interest charges of $11 million is comprised of a reduction in interest on bonds and subordinated notes payable of $5 million and an increase in earnings on investments of $7 million offset by an increase in other interest charges of $1 million. The reduction of interest on bonds and subordinated notes payable is primarily attributable to principal payments of $127 million. The increase of earnings on investments is primarily attributable to a decrease in unrealized losses of $8 million.

The decrease in non-operating income of $1 million principally results from the effects of certain previously received purchasers' funds being recorded into income. At the time of receipt, these funds were recorded as a direct reduction to net costs to be recovered from future billings to participants to be recognized as income when expended for certain bond retirement and financing costs. During 2004, $2 million of these funds were so expended and have been reflected as non-operating income.

Utility Plant

The increase in utility plant of $19 million resulted principally from expenditures to complete the replacement of air heater elements and a scrubber forced oxidation system as well as other major activities during 2005 that continue into 2006 including the installation of a digital control system, replacement of induced draft fan drives, and repairs to concrete water lines. Approximately $13 million has been committed for ongoing work for these projects during 2006.

Long-term Debt

$127 million of scheduled principal maturities were paid during 2005.

Standard & Poor's and Fitch rate the insured revenue refunding bonds AAA. Standard & Poor's rates the uninsured revenue refunding bonds A+, the variable rate bonds AAA/A1 and the commercial paper A1. Fitch rates the uninsured revenue refunding bonds AA-, the variable rate bonds AAA/F1+ and the commercial paper F1+. Moody's rates the insured revenue refunding bonds Aaa, the uninsured revenue refunding bonds A1 and the variable rate bonds A1/VMIG1. Moody's did not rate the commercial paper. The bond ratings remain unchanged from 2004.

Electric Industry Restructuring

Federal and certain state legislatures and regulators, including the California State Legislature and the California Public Utilities Commission, have taken previous action to increase competition in electric markets and among electric utilities. These actions have been contributing factors to increased volatility in the electric power markets in California. In response to this volatility, the California State Legislature and the California Public Utilities Commission have acted reversing some of their previous actions and imposing additional regulation and involvement that may have the effect of reducing competition. Legislative and regulatory actions, both nationally and in California, have had and may yet have significant (yet hard to quantify) effects on IPA and the Purchasers.

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INTERMOUNTAIN POWER AGENCY

CONSOLIDATED BALANCE SHEETS, JUNE 30, 2005 AND 2004 (IN THOUSANDS)

ASSETS	2005	2004
UTILITY PLANT:		
Electric plant in service	$ 2,861,999	$ 2,843,168
Less accumulated depreciation	(1,524,318)	(1,449,480)
Total	1,337,681	1,393,688
RESTRICTED ASSETS:		
Securities purchased under agreements to resell	165,069	199,928
Investments	370,779	334,127
Interest receivable	1,943	3,200
Total	537,791	537,255
CURRENT ASSETS:		
Securities purchased under agreements to resell	55,426	61,352
Investments	13,315	3,329
Interest receivable	106	52
Receivable from participants	3,438	13,680
Fuel inventories	21,007	22,091
Materials and supplies	17,898	16,013
Other	7,359	7,021
Total	118,549	123,538
OTHER ASSETS:		
Unamortized bond expense - net	16,491	18,475
Net costs to be recovered from future billings to participants	1,049,839	1,062,996
Deferred fuel costs - net	17,994	21,843
Other	29,919	33,991
Total	1,114,243	1,137,305
TOTAL	$ 3,108,264	$ 3,191,786

See notes to consolidated financial statements.

INTERMOUNTAIN POWER AGENCY

CONSOLIDATED BALANCE SHEETS, JUNE 30, 2005 AND 2004 (IN THOUSANDS)

LIABILITIES	2005	2004
LONG-TERM PORTION OF BONDS PAYABLE - Net	$1,572,048	$1,627,798
LONG-TERM PORTION OF SUBORDINATED NOTES PAYABLE - Net	818,306	843,301
ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY	11,550	11,550
NON-CURRENT LIABILITIES		
Pension and post retirement obligations	60,029	43,233
Asset retirement obligations	25,360	23,947
Total	85,389	67,180
CURRENT LIABILITIES		
Commercial paper notes	384,000	386,200
Current maturities of bonds payable	91,105	72,710
Current maturities of subordinated notes payable	44,251	54,156
Interest payable	49,149	49,273
Accrued credit to participants	10,807	38,412
Accounts payable and accrued liabilities	41,659	41,206
Total	620,971	641,957
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 4, 5, 9, and 11)		
TOTAL	$3,108,264	$3,191,786

See notes to consolidated financial statements.

INTERMOUNTAIN POWER AGENCY

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED JUNE 30, 2005 AND 2004 (IN THOUSANDS)

	2005	2004
OPERATING REVENUES:		
Power sales to participants	$ 617,038	$ 606,206
Less credit to participants	(10,807)	(38,412)
Total	606,231	567,794
COAL SALES	27,012	34,449
COST OF COAL SALES	39,321	37,480
NET LOSS ON COAL SALES	12,309	3,031
OPERATING EXPENSES:		
Fuel	178,487	168,633
Operation	63,370	55,506
Maintenance	35,782	34,417
Depreciation	78,976	82,312
Taxes and payment in lieu of taxes	23,627	23,871
Total expenses	380,242	364,739
OPERATING INCOME	213,680	200,024
NONOPERATING INCOME:		
Participant funds expended for debt reduction, refinancing and/or other financing costs		1,898
Other	2,590	1,547
Total nonoperating income	2,590	3,445
INTEREST CHARGES:		
Interest on bonds and subordinated notes payable	160,178	165,081
Financing expenses (principally amortization of bond discount, bond expense, and refunding charge on defeasance of debt)	56,034	54,013
Charge on defeasance/retirement of debt (Note 4)		809
Accretion of asset retirement obligations	1,413	1,334
Earnings on investments	(14,512)	(7,263)
Net interest charges	203,113	213,974
NET COSTS RECOVERED (NET COSTS TO BE RECOVERED FROM FUTURE BILLINGS TO PARTICIPANTS)	$ 13,157	$ (10,505)

See notes to consolidated financial statements.

INTERMOUNTAIN POWER AGENCY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004 (IN THOUSANDS)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from power billings to participants	$ 588,868	$ 534,592
Cash received from coal sales	30,050	32,180
Other cash receipts	1,640	1,402
Cash paid to suppliers	(319,850)	(288,533)
Net cash provided by operating activities	300,708	279,641
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	None	None
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds		62,800
Defeasance and retirement of bonds		(71,080)
Bond issuance costs	(16)	(1,148)
Bond and subordinated note principal paid	(126,866)	(137,044)
Commercial paper principal paid	(2,200)	
Interest paid on bonds and subordinated notes	(157,126)	(158,654)
Additions to electric plant in service	(21,913)	(26,558)
Other	(2,449)	(5,172)
Net cash used in capital and related financing activities	(310,570)	(336,856)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,246,238)	(345,789)
Proceeds from sales/maturities of investments	1,199,581	580,735
Interest on investments	15,734	22,311
Net cash (used in) provided by investing activities	(30,923)	257,257
NET (DECREASE) INCREASE IN SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	(40,785)	200,042
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL:		
Beginning balance	261,280	61,238
Ending balance	$ 220,495	$ 261,280

See notes to consolidated financial statements.

INTERMOUNTAIN POWER AGENCY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004 (IN THOUSANDS)

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$213,680	$200,024
Other nonoperating income	2,590	1,547
Depreciation	78,976	82,312
Amortization	9,628	10,268
Financing expenses, net of amortization of bond discount, bond expense, and refunding charge on defeasance of debt	(2,599)	(2,452)
Changes in operating assets and liabilities:		
Receivable from participants	10,242	(11,108)
Fuel inventories	1,084	10,216
Materials and supplies	(1,885)	(744)
Other current assets	(338)	551
Pension and post retirement obligations	16,796	14,551
Accounts payable and accrued liabilities	139	(3,430)
Accrued credit to participants	(27,605)	(22,094)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$300,708	$279,641

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Accounts payable and accrued liabilities included at June 30, 2005 and 2004, $2,933,000 and $2,619,000, respectively, that financed additions to electric plant in service and other assets.

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose – Intermountain Power Agency (IPA), a separate legal entity and political subdivision of the State of Utah, was formed in 1977 by an Organization Agreement pursuant to the provisions of the Utah Interlocal Co-operation Act. The IPA Organization Agreement, as amended, has a term of sixty-seven years or longer in certain circumstances. IPA's membership consists of 23 municipalities which are suppliers of electric energy in the State of Utah. IPA's purpose is to own, acquire, construct, operate, maintain and repair a two-unit, coal-fired, steam-electric generating plant and switchyard located in Millard County, Utah and transmission systems through portions of Utah, Nevada and California (the Project). The operation and maintenance of the Project is managed for IPA by the Department of Water and Power of the City of Los Angeles (LADWP) in its capacity as Operating Agent pursuant to the Operating Agreement. LADWP has also contracted to purchase a portion of the electric energy generated from the Project (see Note 9). Personnel at the generating plant are employed by Intermountain Power Service Corporation (IPSC), a separate legal entity. Under a Personnel Services Contract (PSC), IPA is required to pay all costs incurred by IPSC, including employee pensions and benefits offered by IPSC to its employees.

Basis of Consolidation – The consolidated financial statements include the accounts of IPA and a proportionate share of the accounts of certain unincorporated operating coal mines in which IPA has acquired a 50% undivided interest in the assets and liabilities thereof.

Coal Operations – As part of IPA's fuel supply management program, IPA has acquired an undivided interest in the assets, liabilities and reserves of certain operating coal mines and has entered into arrangements for the management of the mines. IPA uses a portion of the coal taken from the mines for fuel. IPA's cost of such coal is the production cost adjusted for gains or losses resulting from coal sales to third parties.

Use of Estimates in Preparing Financial Statements – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting – IPA maintains its records substantially in accordance with the Federal Energy Regulatory Commission Uniform System of Accounts, as provided by its Contracts (see Note 9), and in conformity with accounting principles generally accepted in the United States of America. IPA applies all of the pronouncements of the Governmental Accounting Standards Board (GASB). IPA also applies the pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

Utility Plant – Electric plant in service is stated at cost which represents the actual direct cost of labor, materials, and indirect costs, including interest and other overhead expenses, net of related income during the construction period. Depreciation of electric plant in service is computed using the straight-line method over the estimated useful lives of the assets which range from five to thirty-five years and has historically included, in addition to assets recorded related to asset retirement obligations (see Note 8), estimates for other future costs related to the retirement of the Project recorded pursuant to Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* accumulating to $154,464,000 which amount is included in accumulated depreciation at June 30, 2005 and 2004. Retirements of electric plant in service, including the cost of removal and salvage, are charged to accumulated depreciation.

Payments-in-Aid of Construction – IPA and the Southern California Public Power Authority (SCPPA), which is comprised of certain California Purchasers (see Note 7), have entered into the Southern Transmission System Agreement, as amended, (STS Agreement) whereby SCPPA has made payments-in-aid of construction totaling approximately $633,908,000 to IPA for costs associated with the acquisition and construction of the southern transmission system of the Project (STS). Such payments-in-aid are recorded as reductions to utility plant.

Securities Purchased Under Agreements to Resell – Securities purchased under agreements to resell are stated at fair value. Investments underlying securities purchased under agreements to resell are held by IPA as beneficial owner in book-entry form.

Investments – The IPA Bond Resolution, as amended, stipulates IPA may invest in direct obligations of the United States Government and certain United States Government agencies; direct and general obligations of States; certificates of deposit and bankers' acceptances of certain qualifying banks; and repurchase agreements collateralized by securities which IPA would otherwise be permitted to purchase. Investments are held by IPA as beneficial owner in book-entry form. Management believes there were no investments held by IPA during the years ended June 30, 2005 and 2004 which were in violation of the requirements of the Bond Resolution.

Investments are stated at fair value. All investment income, including changes in fair value of investments, is recognized in the consolidated statements of revenues and expenses and reported as earnings on investments.

Fuel Inventories, Materials, and Supplies – Fuel inventories, principally coal, have been purchased for the operation of the utility plant. Such inventories are stated at cost (computed on a last-in, first-out basis). The replacement cost of fuel inventory is approximately $3,300,000 greater than the stated last-in, first-out value at June 30, 2005 and $5,000,000 greater at June 30, 2004. Materials and supplies are stated at average cost.

Unamortized Bond Expense, Bond Discount, and Refunding Charge on Defeasance of Debt – Unamortized bond expense and discount related to the issuance of bonds and the unamortized refunding charge related to the refunding of certain bonds are deferred and amortized using the interest method over the terms of the respective bond issues. Bonds payable have been reported net of the unamortized bond discount and refunding charge on defeasance of debt in the accompanying consolidated balance sheets.

Net Costs to be Recovered from Future Billings to Participants – Billings to participants are designed to recover power costs as set forth by the power sales contracts which principally include current operating expenses, scheduled debt principal and interest, and deposits into certain funds. Pursuant to SFAS No. 71, expenses determined in accordance with Generally Accepted Accounting Principles (GAAP), that are not currently billable as power costs, are deferred and classified as other assets in the accompanying consolidated balance sheets. The deferred GAAP expenses will be recovered in future periods as they become power costs and are included in future participant billings (see Note 3). Over the life of the plant, aggregate GAAP expenses will equal aggregate billable power costs.

Federal and certain state legislatures and regulators, including the California State Legislature and the California Public Utilities Commission, have taken previous action to increase competition in electric markets and among electric utilities. These actions have been contributing factors to increased volatility in the electric power markets in California. In response to this volatility, the California State Legislature and the California Public Utilities Commission have acted reversing some of their previous actions and imposing additional regulation and involvement that may have the effect of reducing competition. Legislative and regulatory actions, both nationally and in California, have had and may yet have significant (yet hard to quantify) effects on IPA and the Purchasers. If these effects, which are not currently determinable, were to cause the Purchasers to be unable to meet their future power sales contract payment obligations, IPA may then be required to apply the provisions of SFAS No. 101, *Regulated Enterprises - Accounting for the Discontinuation of the Application of SFAS 71* which requires that assets and liabilities recognized pursuant to SFAS No. 71 be removed from the balance sheet when the SFAS No. 71 application criteria is no longer met unless those costs continue to be recoverable through a separate regulatory billing.

Long-Lived Assets – Impairment of long-lived assets is determined in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. IPA evaluates the carrying value of long-lived assets based upon current and anticipated undiscounted cash flows, and recognizes an impairment when such estimated cash flows will be less than the carrying value of the asset. Measurement of the amount of impairment, if any, is based upon the difference between carrying value and fair value.

Deferred Fuel Costs – Deferred fuel costs represent payments to renegotiate coal purchase commitments of existing coal supply contracts. These payments are being amortized as additional fuel cost over the future periods benefited under the renegotiated coal contracts.

Pension and Post Retirement Obligations – IPA sponsors a defined benefit pension plan and a post retirement medical plan that are accounted for pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. No disclosures related to these plans are presented herein because amounts are not significant. IPSC sponsors contributory, defined benefit and postretirement medical plans for its employees. Such pension and benefit amounts related to IPSC are accrued by IPA when they are determined to be expenses in accordance with SFAS No. 87, *Employers' Accounting for Pensions,* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and will be paid to IPSC when they become billable under the PSC. The IPSC pension accumulated benefit obligation at June 30, 2005 and 2004 was approximately $64,732,000 and 45,000,000, respectively, and the fair value of assets held by the plan at June 30, 2005 and 2004 was approximately $38,713,000 and $33,270,000, respectively. The IPSC postretirement medical plan accumulated postretirement benefit obligation at June 30, 2005 and 2004 was approximately $44,500,000 and $39,000,000, respectively, and the fair value of assets held by the plan at June 30, 2005 and 2004 was approximately, $10,490,000 and $7,497,000, respectively. A liability has been recorded in the accompanying consolidated balance sheets equaling the excess of the benefit obligations over the fair value of the assets held by these plans.

Consolidated Statements of Cash Flows – In reporting cash flows, IPA considers securities purchased under agreements to resell with an original maturity of three months or less to be cash equivalents. As more fully discussed in Note 4, the IPA Bond Resolution required the establishment of certain funds and prescribes the use of monies in these funds. Accordingly, the assets held in certain of these funds are classified as restricted in the accompanying consolidated balance sheets. In accordance with the GASB requirements, restricted securities purchased under agreements to resell are considered cash equivalents.

Recently Issued Standards Adopted – In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB No. 45). GASB No. 45 requires state and local governmental employers to account for and report the annual cost of other postemployment benefits (OPEB) and the outstanding obligations and commitments related to OPEB in essentially the same manner as currently required pension obligations. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB No. 45 do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods. GASB No. 45 is effective for IPA for periods beginning after December 15, 2006. IPA does not expect the adoption of GASB No. 45 to have a material impact on the consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143* (FIN No. 47). FIN No. 47 clarifies that the term conditional asset retirement obligation, as used in SFAS No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even through uncertainly exists about the timing and/or method of settlement. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN No. 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. IPA does not expect the adoption of FIN No. 47 to have a material impact on the consolidated financial statements.

Reclassifications – Certain reclassifications have been made in the prior year financial statements to conform to classifications adopted in the current year which included, among others, a reclassification in the consolidated statement of cash flows to reflect accounts payable and accrued liabilities of $2,619,000 at June 30, 2004 that financed additions to electric plant in service and other assets.

2. INVESTMENTS AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

At June 30, 2005 and 2004, securities purchased under agreements to resell and investments were as follows (in thousands):

	2005		2004	
	Fair Value	Weighted Average Maturity (Days)	Fair Value	Weighted Average Maturity (Days)
Securities purchased under agreements to resell:				
Restricted - held in funds established by the IPA Bond Resolution	$165,069	1	$199,928	1
Current:				
Held in funds established by the IPA Bond Resolution	53,209	1	59,138	1
Held in other funds	2,217	1	2,214	1
Total current securities purchased under agreements to resell	55,426		61,352	
Investments held in funds established by the IPA Bond Resolution:				
Restricted:				
U.S. Treasury Notes	17,194	423	22,582	619
U.S. Government Agencies	353,585	1,080	311,545	1,925
Total restricted investments	370,779		334,127	
Current - U.S. Government Agencies	13,315	1,518	3,329	1,316
Total	$604,589	674	$598,736	1,047

3. NET COSTS TO BE RECOVERED FROM BILLINGS TO PARTICIPANTS

Net costs to be recovered from billings to participants for the years ended June 30, 2005 and 2004 and the accumulated totals as of June 30, 2005 and 2004 consisted of the following (in thousands):

	For the Years Ended June 30,		Accumulated Totals as of June 30,	
	2005	2004	2005	2004
Items in accordance with GAAP not billable to participants under the power sales contracts:				
Interest expense in excess of amounts billable			$ 452,454	$ 452,454
Depreciation expense	$ 78,976	$ 82,312	1,629,706	1,550,730
Amortization of bond discount, bond expense, and refunding on defeasance of bonds	53,435	51,561	825,631	772,196
Accretion of interest on zero coupon bonds	3,176	5,644	348,564	345,388
Charge on retired debt		809	136,141	136,141
Cumulative effect of a change in accounting principle			18,241	18,241
Accretion of asset retirement obligations	1,413	1,334	4,210	2,797
Unrealized (gains) losses on investments	(539)	7,534	1,589	2,128
Amortization of deferred fuel costs	3,849	7,542	51,385	47,536
Accrued interest earnings	607	2,475	2,133	1,526
Accrued liabilities	14,701	10,421	56,604	41,903
Other	449	1,233	20,968	20,519
Amounts billed to participants under the bond resolution and the power sales contracts:				
Bond and subordinated note principal	(146,744)	(134,763)	(1,964,327)	(1,817,583)
Deferred fuel costs			(32,228)	(32,228)
Capital improvements	(23,019)	(27,180)	(195,804)	(172,785)
Reduction of required fund deposits	539	3,481	4,952	4,413
Participant funds expended for debt reduction, refinancing and/or other financing costs (Note 9)		(1,898)	(291,214)	(291,214)
Total	(13,157)	10,505	1,069,005	1,082,162
Net participant funds expended from (deposited into) the Bond Retirement and Financing Account (Note 9)		1,898	(19,166)	(19,166)
(Net costs recovered) net costs to be recovered from billings to participants	$ (13,157)	$ 12,403	$ 1,049,839	$ 1,062,996

4. BONDS PAYABLE

To finance the construction of the Project, IPA has sold Revenue and Revenue Refunding Bonds (the Senior Bonds) pursuant to IPA's Power Supply Revenue Bond Resolution adopted September 28, 1978, as amended and supplemented (the Bond Resolution) and IPA has sold Subordinated Revenue Refunding Bonds (the Subordinated Bonds) pursuant to IPA's Subordinated Power Supply Revenue Resolution adopted March 4, 2004, as supplemented (the Subordinated Bond Resolution). As of June 30, 2005 and 2004, for the Senior Bonds and the Subordinated Bonds (collectively, the Bonds) the principal amount of coupon bearing bonds and accreted value of zero coupon bonds payable consisted of the following (in thousands):

Series	Bonds Dated	Final Maturity on July 1	2005	2004
Senior Bonds				
1985 E	10-23-85	2018	$ 161,700	$ 167,800
1985 F	10-23-85	2018	162,400	168,400
1988 A	10-01-88	2006	941	1,506
1988 B	10-01-88	2006	12,163	19,458
1989 A	5-15-89	2006	6,475	9,008
1989 B	5-15-89	2006	6,267	8,725
1993 A	2-01-93	2004		1,510
1993 B	5-01-93	2004		455
1993 C	8-03-93	2014	13,330	19,960
1996 A	5-22-96	2014	86,755	86,755
1996 B	4-03-96	2016	214,495	227,695
1996 C	4-03-96	2017	67,525	67,525
1996 D	2-01-96	2023	120,980	121,675
1996 E	10-04-96	2009	69,010	85,130
1997 A	4-02-97	2016	19,060	19,215
1997 B	4-02-97	2019	249,855	250,295
1998 A	9-01-98	2020	268,855	273,855
1999 A	4-06-99	2019	37,765	39,495
2002 A	6-04-02	2013	95,835	95,835
2003 A	4-11-03	2021	287,225	287,225
2003 B	4-11-03	2005	15,495	15,495
Subordinated Bonds				
2004 A	3-10-04	2022	62,800	62,800
Total Bonds payable			1,958,931	2,029,817
Unamortized bond premium			7,505	12,536
Unamortized refunding charge - net			(303,283)	(341,845)
Current maturities of bonds payable			(91,105)	(72,710)
LONG-TERM PORTION OF BONDS PAYABLE			$ 1,572,048	$ 1,627,798

Interest rates on the Bonds payable outstanding at June 30, 2005 range from 2.20% to 6.50%.

The changes in Bonds payable for the years ended June 30, 2005 and 2004 are as follows (in thousands):

	2005	2004
Beginning balance	$2,029,817	$2,108,559
Additions:		
Accretion of interest on zero coupon bonds	1,824	2,723
Refunding Bonds issued		62,800
Deductions:		
Principal maturities and sinking fund payments	(72,710)	(74,125)
Bonds defeased/retired		(70,140)
Ending balance	$1,958,931	$2,029,817

The principal amounts of future maturities, sinking fund requirements and interest to be paid for the Bonds outstanding as of June 30, 2005 are shown below (in thousands). The interest amounts below are calculated based upon an interest rate of 2.408% for the 1985 Series E and F Bonds and the 2004 Series A Bonds which represents the weighted average interest rate on these bonds at June 30, 2005:

	Principal	Interest
Years ending June 30:		
2006	$ 91,105	$ 93,355
2007	102,520	88,196
2008	115,075	83,295
2009	124,125	77,247
2010	133,630	70,394
2011 - 2015	514,915	266,747
2016 - 2020	668,435	126,203
2021 - 2024	209,970	13,098
Total maturity value of bonds payable	1,959,775	
Less unaccreted interest on zero coupon bonds	(844)	
Total	$1,958,931	$ 818,535

The Bond Resolution stipulates that the Senior Bonds are direct and special obligations of IPA payable solely from and secured solely by (1) the proceeds from the sale of bonds (2) all revenues, rents, income, and receipts attributable to the Project and interest on all monies or securities held pursuant to the Bond Resolution and (3) all funds established by the Bond Resolution. The Subordinated Bond Resolution stipulates that the Subordinated Bonds are direct and special obligations of IPA payable from and secured by amounts on deposit in the Subordinated Indebtedness Debt Service Account. The Bond Resolution and the Subordinated Bond Resolution require that after the required monthly deposits of revenues have been made to the Operating Fund and the Debt Service Fund that revenues in amounts sufficient to provide for the debt service requirements of Subordinated Bonds be deposited each month into the Subordinated Indebtedness Debt Service Account. The security for the Subordinated Bonds has the same priority as the security for the Commercial Paper Notes (see Note 6); is senior to the security for the Subordinated Notes Payable and is junior to the security for the Senior Bonds.

Funds Established by the Bond Resolution – The Bond Resolution requires that certain funds be established to account for IPA's receipts and disbursements and stipulates the use of monies, investments held in such funds and balances that are to be maintained in certain of the funds. Balances in the other funds are determined by resolution of the IPA Board of Directors. A summary of funds established by the Bond Resolution and the aggregate amount of assets held in these funds, including accrued interest receivable as of June 30, 2005 and 2004 is as follows (in thousands):

	2005	2004
Restricted assets:		
Debt Service Fund:		
Debt Service Account	$ 133,389	$ 116,204
Debt Service Reserve Account	241,096	243,708
Subordinated Indebtedness Fund -		
Debt Service Account	11,424	10,951
Reserve and Contingency Fund:		
Renewal and Replacement	2,641	1,430
Reserve Account	33,381	31,407
Self-Insurance Fund	7,438	7,388
General Reserve Fund (Note 9)	108,422	126,167
Total restricted assets	537,791	537,255
Operating Fund	66,630	62,519
Total	$ 604,421	$ 599,774

The reconciliation of the Operating Fund to the current assets as reported in the June 30, 2005 and 2004 consolidated balance sheets is as follows (in thousands):

	2005	2004
Current assets reported in consolidated balance sheets:		
Securities purchased under agreements to resell	$ 55,426	$ 61,352
Investments	13,315	3,329
Interest Receivable	106	52
Less securities purchased under agreements to resell not held in funds required by the Bond Resolution	(2,217)	(2,214)
Operating Fund	$ 66,630	$ 62,519

Early Redemption of Bonds – Bonds outstanding at June 30, 2005 are generally subject to redemption, in whole or in part, prior to maturity at the option of IPA. Redemption prices range from 100% to 102%, depending on the redemption period, plus accrued interest to the date of redemption.

Bondholder Tender Option – Currently, interest rates on the 1985 Series E and F bonds are adjustable periodically to rates based upon prevailing market conditions for maturities up to semiannual durations. The bondholders of these issues may, and in certain circumstances must, tender their bonds for redemption at par on any interest rate adjustment date.

Credit and Liquidity Facilities – IPA has obtained certain liquidity facilities to provide funds, if required, to pay the outstanding principal and interest of the 1985 Series E and F bonds. These liquidity facilities are in the form of standby bond purchase agreements and are in an amount equal to the outstanding principal portion of the 1985 Series E and F bonds. The liquidity facilities, if utilized, create subordinated bank notes. At June 30, 2005 and 2004, there were no borrowings under these agreements.

Covenants – The Bond Resolution has imposed certain covenants upon IPA which, among others, include a promise to establish rates sufficient to pay the bondholders scheduled interest and principal payments and to make such payments on a timely basis, keep proper books of record and account, and comply with certain financial reporting and auditing requirements. Management believes that it is in compliance with these covenants as of June 30, 2005 and 2004.

Defeasance of Debt – During the year ended June 30, 2004, the proceeds of the sale of the 2004 Series A Bonds and certain other funds were used to retire $68,269,000 of previously issued Bonds. Accordingly, all amounts related to the retired Bonds were removed from the consolidated balance sheet that resulted in an increase in the refunding charge on defeasance of debt of $6,756,000. The aggregate outstanding principal amount of coupon bearing bonds and the maturity value of zero coupon bonds considered to be extinguished through defeasance at June 30, 2005 was $328,825,000 .

During the year ended June 30, 2004, $1,871,000 of prior series Bonds were retired with cash held for such purposes by IPA (see Note 9). Accordingly, all amounts related to the retired Bonds were removed from the consolidated balance sheet, which resulted in a charge on retired debt during the year ended June 30, 2004 of $809,000. Because these Bonds were not defeased through a refunding, the charge on defeased debt has been reflected as an expense in the accompanying consolidated statements of revenues and expenses.

5. SUBORDINATED NOTES PAYABLE

IPA and the California Purchasers (see Note 9) have entered into the Intermountain Power Project Prepayment Agreement (Prepayment Agreement). Pursuant to the Prepayment Agreement, a California Purchaser, upon providing IPA sufficient funds, can direct IPA to defease certain outstanding Bonds. In consideration for IPA's use of the California Purchaser's funds to defease outstanding Bonds, IPA issues to the California Purchaser a subordinated note or notes payable. Such subordinated notes payable are not subject to early redemption by IPA and are not transferable by the holder, but otherwise carry terms substantially equivalent to the defeased Bonds (subject to certain adjustments) and are junior and subordinate to Bonds payable and commercial paper notes. As of June 30, 2005 and 2004, the principal amount of interest bearing subordinated notes payable and the accreted value of certain other subordinated notes payable consisted of the following (in thousands):

Note Holder	Issue Date	Final Maturity	2005	2004
LADWP	2/10/2000	7/1/2020	$ 488,922	$ 516,197
LADWP	3/2/2000	7/1/2023	552,815	552,815
LADWP	5/2/2000	7/1/2021	58,630	58,630
LADWP	9/7/2000	7/1/2021	96,413	121,942
Total subordinated notes payable			1,196,780	1,249,584
Unamortized discount			(81,079)	(84,291)
Unamortized refunding charge			(253,144)	(267,836)
Current maturities of subordinated notes payable			(44,251)	(54,156)
Long-term portion of subordinated notes payable			$ 818,306	$ 843,301

The changes in subordinated notes payable for the years ended June 30, 2005 and 2004 are as follows (in thousands):

	2005	2004
Beginning balance	$ 1,249,584	$ 1,309,582
Additions - accretion of interest on zero coupon bonds	1,352	2,921
Deductions - principal maturities	(54,156)	(62,919)
Ending balance	$ 1,196,780	$ 1,249,584

The principal amounts of future maturities and interest to be paid of subordinated notes payable as of June 30, 2005 are as follows (in thousands):

	Principal	Interest
Year ending June 30:		
2006	$ 44,251	$ 58,499
2007	32,878	55,237
2008	31,778	53,275
2009	14,032	53,049
2010	31,166	50,731
2011 - 2015	389,687	201,980
2016 - 2020	347,970	109,716
2021 - 2024	305,018	7,116
Total	$ 1,196,780	$ 589,603

6. COMMERCIAL PAPER NOTES

An amended subordinated indebtedness resolution allows IPA to issue Commercial Paper Notes in amounts not to exceed $386,200,000 outstanding at any one time. The Commercial Paper Notes outstanding at June 30, 2005 of $384,000,000 bear interest at 2.20% to 2.85% with remaining maturities ranging between 1 and 132 days.

IPA has entered into certain credit agreements equal to the outstanding principal portion of the Commercial Paper Notes. The credit agreements will provide funds, if required, to pay the outstanding principal of the Commercial Paper Notes. The credit agreements, if utilized, create subordinated bank notes. At June 30, 2005 and 2004, there were no borrowings under these agreements.

7. ADVANCES FROM SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

In accordance with the STS Agreement, SCPPA has funded an allocable portion of IPA's working capital reserves. The advances from SCPPA run concurrently with the life of the Project. Management believes that advances from SCPPA in the accompanying financial statements meet those required under the STS Agreement.

8. ASSET RETIREMENT OBLIGATIONS

IPA's transmission facilities are generally located upon land that is leased from the Federal and certain state governments. Upon termination of the leases, the structures, improvements and equipment are to be removed and the land is to be restored. Because these leases are expected to be renewed indefinitely and because of the inherent value of the transmission corridors, the leases have no foreseeable termination date and, therefore, the fair value of Asset Retirement Obligations (ARO)related to the transmission facilities cannot be reasonably estimated. IPA also has certain ARO related to other long-lived assets at or near the generation station site. These obligations are related to the reclamation of certain rights-of-way, wastewater ponds, settling ponds, landfills and other facilities that may affect ground water quality.

The reconciliation of the ARO for the fiscal years ended June 30, 2005 and 2004 is as follows (in thousands):

	2005	2004
Beginning balance	$ 23,947	$ 22,613
Accretion expense	1,413	1,334
Ending balance	$ 25,360	$ 23,947

9. POWER SALES AND POWER PURCHASE CONTRACTS

IPA has sold the entire capacity of the Project pursuant to Power Sales Contracts, as amended (the Contracts), to 36 utilities consisting of six California municipalities (California Purchasers), Utah Power & Light Company (UP&L), twenty-three Utah municipalities (Utah Municipal Purchasers) and six rural electrical cooperatives (Cooperative Purchasers) (collectively, the Purchasers). The California Purchasers, UP&L, Utah Municipal Purchasers and the Cooperative Purchasers have contracted to purchase approximately 75%, 4%, 14%, and 7%, respectively, of the capacity of the Project. The Contracts expire on June 15, 2027 and, as long as any of the Bonds are outstanding, cannot be terminated nor amended in any manner which will impair or adversely affect the rights of the bondholders. Under the terms of the Contracts, the Purchasers are obligated to pay their proportionate share of all operation and maintenance expenses and debt service on the Bonds and any other debt incurred by IPA, whether or not the Project or any part thereof is operating or operable, or its output is suspended, interrupted, interfered with, reduced, or terminated. In accordance with the Contracts, billings in excess of monthly power costs, as defined, are credited to Purchasers taking power in any fiscal year (the "Participants"). IPA had accrued credits to Participants of $10,807,000 as of June 30, 2005 and $38,412,000 as of June 30, 2004, which have been charged to operating revenue of the respective years. Such credits to Participants are applied in the subsequent year to reduce power billings in accordance with the Contracts.

A Bond Retirement and Financing Account (BRFA) within the General Reserve Fund was established by the Forty-First Supplemental Power Supply Revenue Bond Resolution (the Forty-First Supplemental Resolution). Amounts deposited into the BRFA are to be used to purchase, redeem or defease outstanding IPA debt; for contributions required to be made by IPA in refunding bond issues; or for other financing costs since the BRFA was established. The Purchasers have elected to deposit funds into the BRFA in addition to the funds required to be paid by them to IPA for power supply costs. The participant funds deposited into the BRFA have been recorded as a direct reduction to net costs to be recovered from future billings to participants. Such funds deposited into the BRFA are recorded as revenue, under SFAS No. 71, when they are expended for related bond retirement and financing costs. During the year ended June 30, 2005, $1,898,000 was expended for financing costs and have been reflected as nonoperating income in the accompanying consolidated statements of revenue and expenses. The total amount of unrecorded revenues remaining in the BRFA as of June 30, 2005 and 2004 was $19,166,000 .

10. RELATED PARTY TRANSACTIONS

LADWP, as Operating Agent, performed engineering and other services for the Project totaling approximately $16,287,000 and $18,161,000 for the years ended June 30, 2005 and 2004, respectively, which has been billed to IPA and charged to operations or utility plant, as appropriate. Operating Agent prepaid billings totaling $1,236,000 are included in other current assets at June 30, 2005. Power sales payments received from LADWP for the years ended June 30, 2005 and 2004 totaled $387,336,000 and $377,262,000, respectively. The receivables from LADWP at June 30, 2005 and 2004 were $1,363,000 and $6,061,000, respectively.

Power sales payments received from another of the California Purchasers, the City of Anaheim, for the years ended June 30, 2005 and 2004 totaled $81,457,000 and $79,980,000, respectively.

Subordinated notes payable have been issued to LADWP (see Note 5). Interest expense, including interest accretion, on the subordinated notes payable of $59,427,000 and $62,806,000 has been recorded for the years ended June 30, 2005 and 2004, respectively, of which $4,824,000 and $4,961,000 was payable at June 30, 2005 and 2004, respectively.

11. COMMITMENTS AND CONTINGENT LIABILITIES

Coal Supply – At June 30, 2005, IPA was obligated under short and long-term take or pay coal supply contracts for the purchase and transportation of coal to the plant. The cost of coal is computed at a base price per ton, adjusted periodically for various price and quality adjustments. The contracts require minimum purchases of coal over the lives of the contracts through 2012 as follows (computed using the current price under the contracts) (in thousands):

Year ending June 30:		
2006	$	175,105
2007		168,699
2008		128,155
2009		101,551
2010		91,512
Thereafter		89,041
Total	$	754,063

The actual cost of coal purchases under the coal supply contracts for the years ended June 30, 2005 and 2004 was $127,171,000 and $136,479,000, respectively.

Other Commitments and Contingent Liabilities – In June 2003, certain individuals and entities owning dairy farms in Utah and California brought suit in California court against, among others, IPA , LADWP and IPSC alleging damages to the plaintiffs' dairy cattle resulting from stray voltage allegedly emitted from the STS. Although the prayer for relief in the complaint does not specify the damages sought, elsewhere in the complaint the plaintiffs identify the amount of $100,000,000 in compensatory damages. In administrative notices of claim filed with IPA prior to the filing of the suit, the plaintiffs identified special damages of $100,000,000 and general damages in the same amount.

Based upon a motion filed by the defendants in the case, the California courts have stayed the suit in California, ruling that if the plaintiffs wish to proceed with litigation, they should do so in Millard County, Utah. The plaintiffs have refiled the suit in Salt Lake County. A motion to dismiss or to transfer the venue to Millard County has been argued before the court. A ruling on the motion is pending.

Based upon preliminary investigation, management does not believe that IPA is responsible for the alleged stray voltage and will vigorously defend these claims. In the event, however, that damages were to be awarded to the plaintiffs and such damages were payable by IPA, (the amount of which, if any, is not presently determinable) such damages in excess of insurance reimbursements would be recovered through future participant billings.

12. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The carrying amounts of securities purchased under agreements to resell and the commercial paper notes are considered reasonable estimates of fair values. Quoted market prices are used to estimate fair value of investments. The fair value of bonds payable was estimated using yields derived from market prices for similar securities. Under these yields, market prices were estimated to call date, to par call date, and to maturity. The lower of the three price estimates was used for each individual maturity.

The carrying amounts and estimated fair values of financial instruments as of June 30, 2005 and 2004 are as follows (in thousands):

	2005		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Securities purchased under agreements to resell	$ 220,495	$ 220,495	$ 261,280	$ 261,280
Investments	384,094	384,094	337,456	337,456
Total financial assets	$ 604,589	$ 604,589	$ 598,736	$ 598,736
Financial liabilities:				
Bonds payable:				
Long-term portion	$1,867,826	$1,975,130	$1,957,107	$2,073,518
Current maturities	91,105	91,105	72,710	72,710
Total bonds payable	1,958,931	2,066,235	2,029,817	2,146,228
Subordinated notes payable:				
Long-term portion	1,152,529	1,234,303	1,195,428	1,220,092
Current maturities	44,251	44,251	54,156	54,156
Total subordinated notes payable	1,196,780	1,278,554	1,249,584	1,274,248
Commercial paper notes	384,000	384,000	386,200	386,200
Total financial liabilities	$3,539,711	$3,728,789	$3,665,601	$3,806,676

13. SUBSEQUENT EVENTS

On July 20, 2005, IPA issued subordinated notes payable to LADWP in the amount of $92,385,000. The proceeds from the issuance of the subordinated notes were used to defease $92,385,000 of previously issued Bonds. In connection therewith, IPA deposited cash and U.S. Government securities into an irrevocable trust, the principal and interest from which will be sufficient for the payment of the remaining principal and interest payments on the defeased Bonds until the first call dates of the respective issues. Accordingly, all amounts related to the defeased Bonds were subsequently removed from the balance sheet which resulted in an increase in the refunding charge on defeasance of debt of $6,584,000. The refunding reduced total debt service payments over the next 14 years by $2,989,000 and results in an economic gain (i.e., the difference between the present value of the debt service payments on the old and the new debt) of $1,093,000.

In July 2005, IPA entered into three forward starting interest rate exchange agreements (Swaps). The Swaps have a combined notional amount of approximately $356,000,000. In April 2006, IPA plans to issue variable rate refunding bonds to refund its remaining 1996 Series B Bonds. Coincident with the refunding, the Swaps will synthetically convert the variable rate on the refunding bonds to a fixed rate of 3.775%. The combined terms and notional amounts of the Swaps exactly match the refunding bonds.

* * * * * *

INTERMOUNTAIN POWER AGENCY

SUPPLEMENTAL SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE IPA REVENUE BOND RESOLUTION FOR THE YEARS ENDED JUNE 30, 2004 AND 2005 (IN THOUSANDS)

			Restricted Assets								
			Debt Service Fund		Subordinated Indebtedness Fund		Reserve and Contingency Fund				
	Revenue Fund	Operating Fund	Debt Service Account	Debt Service Reserve Account	Debt Service Account	Debt Service Reserve Account	Renewal and Replace-ment	Reserve Account	Self-Insurance	General Reserve	Total
BALANCE, JULY 1, 2003	NONE	$ 53,339	$ 116,656	$ 252,145	$ 12,672	$ 16,303	$ 1,138	$ 38,409	$ 7,515	$ 152,329	$ 650,506
ADDITIONS:											
Proceeds from issuance of Bonds										62,800	62,800
Power billings received	$ 534,592										534,592
Other revenues	1,402										1,402
Investment earnings	20,752	(159)	(3)	(11,134)	(1)	(451)	(328)	(798)	(127)	(488)	7,263
Other assets										1,700	1,700
Total	556,746	(159)	(3)	(11,134)	(1)	(451)	(328)	(798)	(127)	64,012	607,757
DEDUCTIONS:											
Defeasance of Bonds			672	3,507						66,901	71,080
Operating expenditures		258,288								224	258,512
Construction expenditures							26,558				26,558
Interest paid			87,774		70,880						158,654
Bond and subordinated note principal paid			74,125		62,919						137,044
Other assets										5,493	5,493
Bond issuance costs										1,148	1,148
Total		258,288	162,571	3,507	133,799		26,558			73,766	658,489
TRANSFERS:											
Transfer of revenues to other funds	(556,746)	267,627	162,122		132,079		39,273			(44,355)	
Other transfers				6,204				(6,204)			
Excess fund balances released to Revenue Fund	15,852					(15,852)					
Excess fund balances released to General Reserve Fund	(15,852)						(12,095)			27,947	
Total	(556,746)	267,627	162,122	6,204	132,079	(15,852)	27,178	(6,204)		(16,408)	
BALANCE, JUNE 30, 2004	NONE	$ 62,519	$ 116,204	$ 243,708	$ 10,951	NONE	$ 1,430	$ 31,407	$ 7,388	$ 126,167	$ 599,774

(Continued)

INTERMOUNTAIN POWER AGENCY

SUPPLEMENTAL SCHEDULE OF CHANGES IN FUNDS ESTABLISHED BY THE IPA REVENUE BOND RESOLUTION FOR THE YEARS ENDED JUNE 30, 2004 AND 2005 (IN THOUSANDS)

			Restricted Assets								
			Debt Service Fund		Subordinated Indebtedness Fund		Reserve and Contingency Fund				
	Revenue Fund	Operating Fund	Debt Service Account	Debt Service Reserve Account	Debt Service Account	Debt Service Reserve Account	Renewal and Replacement	Reserve Account	Self-Insurance	General Reserve	Total
BALANCE, JULY 1, 2004	NONE	$ 62,519	$ 116,204	$ 243,708	$ 10,951	NONE	$ 1,430	$ 31,407	$ 7,388	$ 126,167	$ 599,774
ADDITIONS:											
Power billings received	$ 588,868										588,868
Other revenues	1,640										1,640
Investment earnings	17,307	10	106	(2,612)			105	(213)	50	(241)	14,512
Other receipts										50	50
Other assets										152	152
Total	607,815	10	106	(2,612)			105	(213)	50	(39)	605,222
DEDUCTIONS:											
Operating expenditures		292,357								97	292,454
Construction expenditures							21,913				21,913
Interest paid			85,671		71,455						157,126
Bond and subordinated note principal paid			72,710		54,156						126,866
Commercial paper principal paid					2,200						2,200
Bond issuance costs										16	16
Total		292,357	158,381		127,811		21,913			113	600,575
TRANSFERS:											
Transfer of revenues to other funds	(607,815)	296,458	175,460		128,284		30,565	2,187		(25,139)	
Excess fund balances released to General Reserve Fund							(7,546)			7,546	
Total	(607,815)	296,458	175,460		128,284		23,019	2,187		(17,593)	
BALANCE, JUNE 30, 2005	NONE	$ 66,630	$ 133,389	$ 241,096	$ 11,424	NONE	$ 2,641	$ 33,381	$ 7,438	$ 108,422	$ 604,421

(Concluded)

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Intermountain Power Agency:

We have audited the consolidated financial statements of Intermountain Power Agency ("IPA"), as of and for the year ended June 30, 2005, and have issued our report thereon dated September 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether IPA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered IPA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

September 26, 2005

Deloitte.

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USA

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE STATE OF UTAH LEGAL COMPLIANCE GUIDELINES

To the Board of Directors of
Intermountain Power Agency:

We have audited the accompanying consolidated financial statements of Intermountain Power Agency ("IPA") for the year ended June 30, 2005, and have issued our report thereon dated September 26, 2005. Our audit included testwork on IPA's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Other General Issues
Purchasing Requirements

IPA did not receive any major or nonmajor State grants during the year ended June 30, 2005.

The management of IPA is responsible for IPA's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

Although the scope of our testwork and of our opinion below includes all of the compliance requirements referenced above, we understand IPA's position to be that it is not legally obligated to comply with some of these requirements. We give no opinion as to whether IPA's position is correct. To the extent IPA is not legally obligated to comply with one or more of these requirements, our opinion below encompasses IPA's voluntary compliance with such requirements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about IPA's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, IPA complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2005.

This report is intended solely for the information and use of the board of directors, the audit committee, management, and the Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 26, 2005

Intermountain Power Agency

October 21, 2005

Mr. MacRay A. Curtis, CPA
Manager, Local Government Division
Office of the State Auditor
Room 211 - State Capitol
Salt Lake City, Utah 84114

Dear Mr. Curtis:

The Intermountain Power Agency (IPA) has complied with all of the general compliance requirements applicable to its activities during its fiscal year ended June 30, 2005, as evidenced by the accompanying favorable compliance opinion issued by our independent auditors, Deloitte & Touche. Although IPA is subject to some of the general compliance requirements, it believes that it is not subject to a number of them. Therefore IPA's compliance with all the requirements has been done voluntarily.

Accordingly, I have enclosed the following reports issued by Deloitte & Touche in connection with the annual audit of IPA's financial statements for the year ended June 30, 2005:

- The Intermountain Power Agency Consolidated Financial Statements for the Years Ended June 30, 2005 and 2004, and Independent Auditor's Report.
- Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based upon the Audit Performed in Accordance with Government Auditing Standards.
- Independent Auditors' Report on Compliance with the State of Utah Legal Compliance Guidelines.

If you have any questions, please give me a call at (801) 938-1333.

Sincerely,

Linford E. Jensen
Audit Manager

Enclosures:

c: Reed T. Searle, IPA General Manager

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